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MEMORANDUM

To:	John Spencer, Spencer & Kupper
From:	Eric Hovee & Andrea Logue
Subject:	Mill Site Residential Market Analysis (Final Draft)
Date:	March 21, 2007

As Task 2.6 to the Downtown Stayton Transportation and Revitalization Plan (TGM 2R-05), the economic and development consulting firm E. D. Hovee & Company, LLC has conducted a residential market analysis of the former Paris Woolen Mills Site. This memorandum is intended to supplement the initial market analysis prepared for the downtown Stayton area (with Technical Memorandum 2, revised as of March 9, 2007).

As part of this more site-specific and residentially focused study, E. D. Hovee & Company is charged with estimating the potential for townhouse/attached housing and other related types of residential or mixed use development on the Mill Site property as part of an expanded downtown area. This analysis is conducted independent of current comprehensive plan and zoning designations on the site – recognizing the prospect for revisions consistent with the overall Downtown Stayton Transportation and Revitalization Plan process.

This memo estimates the number of units per year that can be supported by the Stayton market, and recommends unit pricing, size, and amenities for owner-occupied town home development for the Mill Site and possibly adjoining property. The discussion is organized as follows:

Mill Site Property
Absorption
Recommended Pricing & Features

To conduct this residential market analysis, information has been obtained from representatives of the City of Stayton, national and state data providers, and local real estate contacts. As noted, this analysis also utilizes market research previously conducted for the Downtown Stayton Transportation and Revitalization Plan.

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MILL SITE PROPERTY

The Mill Site property is located on the southeastern corner of the designated downtown. Based on property research conducted by the City, total site area under common ownership appears to be approximately 6.6 acres.

Approximately 2.5 acres of the area represents the primary initial focus for potential townhome development. The remaining 4.1 acres could be developed for small lot single or attached family housing – with opportunity for additional townhome development if warranted by market demand.

In effect, build-out of the approximately 6.6 acres under consideration could support potentially up to 68+ added residential units including:

- 35-40 townhomes on 2.5 acres (at an assumed density of 14-16 units per acre)
- Approximately 33 single-family units on 4.1 acres for small lots (if developed at 8 units per acre, possibly more if townhome density were to be supported).

These unit and acreage figures are indicated as preliminary build-out potentials – subject to modification based on more detailed site planning, potential comprehensive plan and/or zoning changes if required, property owner/developer interests and market conditions at the time this project is developed.

ABSORPTION

The market analysis process to quantify the number of units the Stayton market can absorb each year begins with a review of past housing development. The prior market analysis (Technical Memorandum 2) quantifies general characteristics of the housing market from 1990-2006, using a combination of U.S. Census and private proprietary (ESRI) data.

More Detailed 1990-2000 Census Analysis. The following table depicts the breakdown of housing units in 1990 and 2000 by occupancy status (or tenure) and units in structure.

Figure 1. Stayton Housing Units – Tenure & Units in Structure (1990-2000)

Tenure & Units in Structure	1990	2000	# Change 1990-00	Avg Annual % Chg 1990-00	Avg Annual Units Added
Total:	**1,863**	**2,530**	**667**	**3%**	**67**
Owner-occupied:	*1,136*	*1,482*	*346*	*3%*	*35*
1, detached	985	1,288	303	3%	30
1, attached*	9	27	18	12%	2
2	34	18	-16	-6%	-2
3 or more	0	0	0	0	0
Mobile home	108	149	41	3%	4
Boat, RV, van, etc.	0	0	0	0%	0
Renter-occupied:	*727*	*1,048*	*321*	*4%*	*32*
1, detached	221	223	2	0%	0
1, attached*	84	117	33	3%	3
2	65	156	91	14%	9
3 or more	346	530	186	5%	18
Mobile home	0	22	22	0%	2
Boat, RV, van, etc.	11	0	-11	-100%	-1

* Note: The Census definition for "1, attached" is a 1-unit structure that has one or more walls extending from ground to roof separating it from adjoining structures. In row houses (sometimes called townhouses), double houses, or houses attached to nonresidential structures, each house is a separate, attached structure if the dividing or common wall goes from ground to roof.

Source: U.S. Census Bureau.

As the above depicted Census data indicate:

- Within the City of Stayton over the 1990-2000 time period, nearly 670 housing units were added. This equates to an average of 67 net new units per year.
- Of these added housing units, 52% were *owner-occupied* with the remaining 48% renter-occupied. The vast majority (88%) of owner-occupied new housing units were single-family units.
- Breaking down the added owner-occupied units over the 10-year time span to annual averages, approximately 35 owner-occupied housing units were added *each year* – including an annual average of 30 single-family detached and 2 single-family attached (and another 4 mobile homes). During this same time period, an annual average of 1-2 owner-occupied units in duplexes were removed from Stayton's housing inventory.
- On average, 32 renter-occupied units per year were added during this time period – the majority of which were comprised of multi-family structures of 3+ units.

In effect, the 1990s saw minimal development of attached owner-occupied housing in Stayton. There was some modest addition of 1-unit attached structures, but this was almost offset by a loss of owner-occupied housing in 2-unit (duplex-style) structures. In effect, multi-family construction during the decade of the 1990s was focused on housing built for rental use.

Unfortunately, there is no comparably detailed data set tracking development on a similar basis for Stayton post-2000. As noted in Technical Memorandum 2, ESRI provides estimates of changing owner versus renter-occupied housing – but doesn't provide a further breakdown of how many units are attached/multi-family housing products.

Conversely, City of Stayton housing inventory data tracks development by type of structure but with no specification of owner versus rental occupancy. However, city data does indicate that, on average, 7 units per year have been built since 2000 in 2-family structures (out of an average of 50 new units annually). In other words, attached and multi-family product has accounted for about 15% of new housing built in Stayton since 2000.

Figure 2. Stayton Housing Units – Units in Structure (2000-2006)

Units in Structure	Total Units	Average Annual Units Added	% of Added Units
Single-Family	293	42	84%
2-Family	48	7	14%
3-Family	6	1	2%
Total	347	50	100%

Source: City of Stayton.

Comparative Market Areas. The analysis of housing development trends in a broader market area can be useful to better inform the discussion of potential absorption of owner-occupied attached housing product in Stayton. For this Mill Site market analysis, we have broadened the market perspective to consider Salem, Marion County and a 4-county mid-Willamette Valley region.

Looking to the larger neighboring city of Salem is useful for Stayton in three key respects: a) more detailed attached/multi-family housing data for owner-occupied units is available post-2000; b) the broader market area including Salem provides an experience base indicating the *upper limits* of what might be expected for Stayton for at least the near term future; and c) the potential profile of buyers for townhome product in Stayton can be expected to reflect experience in Salem as well as in the larger mid-Valley region.

Data have been collected for the City of Salem, Marion County, and a combination of Benton, Linn, Marion and Polk Counties. One advantage offered by these larger geographic and market areas is the availability of 2005 housing unit data by tenure and units in structure from the American Community Survey of the U.S. Census Bureau (a source not available for Stayton).

City of Salem Experience. In the City of Salem, just over 9,700 total housing units were added from 1990-2000. Sixty-seven percent of the added housing units were owner-occupied. Of the added owner-occupied housing, 89% were for single-family detached, 5% for single-family attached, and 2% for multi-family housing of two or more units.

Figure 3. Salem Housing Units – Owner-Occupied Units in Structure (1990, 2000, 2005)

Units in Structure	1990	2000	2005	# Change 1990-00	Avg Annual Units Added	# Change 2000-05	Avg Annual Units Added
Total:	**40,936**	**50,645**	**55,425**	**9,709**	**971**	**4,780**	**956**
Owner-occupied:	*22,390*	*28,879*	*32,013*	*6,489*	*649*	*3,134*	*627*
1, detached	19,148	24,918	27,683	5,770	577	2,765	553
1, attached	582	882	966	300	30	84	17
2 to 9	198	316	695	118	12	379	76
10 to 49	60	32	44	-28	-3	12	2
50 or more	0	8	56	8	1	48	10
Mobile home	2,274	2,638	2,569	364	36	-69	-14
Boat, RV, van, etc.	128	85	0	-43	-4	-85	-17

Source: American Community Survey (2005), U.S. Census Bureau (1990, 2000)

From 2000 to 2005, Salem added 4,780 housing units, of which 66% were owner-occupied – a lower rate of owner-occupancy for new production than during the 1990s. Other characteristics of note:

- The majority (88%) of added owner-occupied housing units were single-family detached, with 14% multi-family of two or more units and 3% comprised of single-family attached units.
- On average, 17 units of single-family attached units were added each year, which was a decrease from an average of 30 units per year from 1990-2000.
- Owner-occupied multi-family housing with two to nine units per structure increased by an average of 76 units per year during this most recent five year time period – an increase eight times higher than the level of production experienced during the previous ten year span.
- Combining the attached housing product types (single-family attached and multi-family of all unit configurations), annual production has averaged 105 units per year, representing 11% of all housing and 17% of all new owner-occupied housing added in Salem between 2000 and 2005.

This capture of the owner-occupied market for single-family attached/multi-family product represents what could be considered as a high-side capture potential for the Stayton area in the years ahead.

Marion County Experience. Countywide, nearly 18,150 housing units were added in the 1990-2000 time period – 64% owner-occupied versus 46% renter-occupied. The composition of the owner-occupied added units were 84% single-family detached, 5% single-attached, and 1% multi-family housing of two or more units.

Figure 4. Marion County Housing Units – Owner-Occupied Units in Structure (1990, 2000, 2005)

Units in Structure	1990	2000	2005	# Change 1990-00	Avg Annual Units Added	# Change 2000-05	Avg Annual Units Added
Total:	**83,494**	**101,641**	**108,866**	**18,147**	**1,815**	**7,225**	**1,445**
Owner-occupied:	*52,510*	*63,956*	*68,252*	*11,446*	*1,145*	*4,296*	*859*
1, detached	43,330	53,158	57,950	9,828	983	4,792	958
1, attached	824	1,389	1,450	565	57	61	12
2 to 9	384	519	320	135	14	-199	-40
10 to 49	89	66	44	-23	-2	-22	-4
50 or more	50	53	64	3	0	11	2
Mobile home	7,565	8,489	8,178	924	92	-311	-62
Boat, RV, van, etc.	268	282	56	14	1	-226	-45

Source: American Community Survey, U.S. Census Bureau.

Just under 7,230 housing units were added in Marion County from 2000-2005, 59% of which are owner-occupied. Added notes:

- The number of new owner-occupied single-family detached units actually exceeded the number of all new owner-occupied units, due to a reported removal of more than 750 units from Marion County's housing inventory in other configurations of owner-occupied housing. One quarter of these removed units were multi-family housing of two to nine units.
- On average, 958 single-family detached units and 12 single-family attached units per year were added over the five year span.
- Taking into account only the housing units added to Marion County's inventory, attached housing units comprise 1% of the county's total added inventory and 2% of net new owner units from 2000-2005.

Due to the anomaly of substantial housing removals, Marion County experience should be considered as a *minimum expectation* for attached/multi-family owner housing product in the Stayton area.

Mid-Willamette Valley Experience. This comparative review concludes with an assessment of the broader mid-Valley experience. A total of over 31,880 housing units were added from 1990-2000 to the housing inventory in the four counties of Benton, Linn, Marion and Polk combined. These 4-county added housing units were 69% owner-occupied and 31% renter-occupied.

Figure 5. 4-County Housing Units – Owner-Occupied Units in Structure (1990, 2000, 2005)

Units in Structure	1990	2000	2005	# Change 1990-00	Avg Annual Units Added	# Change 2000-05	Avg Annual Units Added
Total:	162,503	194,385	208,166	31,882	3,188	13,781	2,756
Owner-occupied:	101,723	123,845	131,211	22,122	2,212	7,366	1,473
1, detached	84,115	102,318	109,656	18,203	1,820	7,338	1,468
1, attached	1,441	2,514	2,679	1,073	107	165	33
2 to 9	791	940	1,499	149	15	559	112
10 to 49	120	100	125	-20	-2	25	5
50 or more	50	72	120	22	2	48	10
Mobile home	14,707	17,206	16,892	2,499	250	-314	-63
Boat, RV, van, etc.	499	695	240	196	20	-455	-91

Source: American Community Survey, U.S. Census Bureau.

In the years from 2000 to 2005, a total of just over 13,780 housing units were added to this 4-county area:

- Fifty-three percent of the added housing units were owner-occupied, composed of 7,338 single-family detached, 165 single-family attached, and 632 total multi-family housing units.
- Of the net added ownership inventory, this equates to an average of 1,468 single-family detached units, 33 single-family attached units, and 127 multi-family housing units added each year from 2000-2005.
- In total, the 160 attached units comprise 6% percent of the all added housing units and 11% of the net new ownership inventory added to this 4-county region during this five year time period.

The mid-Valley capture of attached/multi-family housing represents a mid-point expectation, between the high capture of Salem and the relatively low capture experiences indicated for Marion County.

Comparative Summary. From the data presented up to this point, this analysis focuses on the number of attached owner-occupied units (single-family attached and multi-family combined) added in each of the two timeframes and the resulting percentage the attached units represent in the total housing units added in each geographic area.

Figure 6. Added Owner-Occupied Attached Housing (1990-2005)

	Added Owner-Occupied Attached Units 1990-2000		2000-2005	
	# Added	% of All*	# Added	% of All*
City of Stayton	18	3%	NA	NA
City of Salem	426	4%	523	11%
Marion County	703	4%	72	1%
4-County	1,244	4%	797	6%

* Note: The % capture is shown as a % of all net new units (owner + rental) added in each area.

Source: American Community Survey, U.S. Census Bureau.

From 1990-2000, added owner-occupied attached housing units in Stayton represented 3% of total added housing units. Within the City of Salem, Marion County, and the four counties of Benton, Linn, Marion and Polk, the added attached housing units comprised 4% of each area's added housing units.

While more recent data is not available for Stayton, there is useful post-2000 data available for several comparable geographies. Both in Salem and for the 4-county region, the proportion of new housing accounted for by attached (including multi-family) ownership product increased – especially for Salem.

The percentage of added attached owner-occupied units in the years between 2000 and 2005 increased 6% in the 4-county region and jumped almost 3-fold to 11% of total housing production in Salem. As described above, the Marion County experience is regarded as a bit of an anomaly since a substantial proportion of the previous multi-family ownership inventory was removed during this period.

Stayton Absorption Potentials. Taking into account recent experience throughout the mid-Valley region, Stayton could reasonably aspire to a capture rate of 6% – as the share of all housing units to be added in the years through 2011 that could be marketed as attached owner-occupied housing product. According to data compiled for the Technical Memorandum 2: Market Analysis, 521 added housing units are projected from 2000-2011 of which 31 units (or 6%) would be comprised of attached owner-occupied housing. This would average to about 3 units per year as a *baseline* absorption estimate.

If *catch-up* demand were included to cover the period of zero production from 2000-2006, the Stayton market conceivably could support annual absorption in the range of 6 units annually from 2006-2011. This represents what could be considered as *high demand* absorption through 2011.

- Factors that could *benefit* market absorption include continued strong housing demand nationally and regionally, competitive unit pricing and features, aggressive marketing not only in Stayton but regionally, and perceived amenity value for the Mill Site location including river proximity and substantial nearby downtown revitalization programs.
- Conversely, factors that could *impede* market absorption including a substantial slowdown in national and regional housing demand, poorly positioned unit pricing and

features, limited marketing, and buyer concerns over area image including lack of confidence in opportunities for downtown area revitalization.

At the high demand absorption rate of about 6 units per year, a 35-40 unit project could take 6-7 years for all units to be sold. The 1.5 acre Mill Site alone could accommodate about 60% of these units, with an adjoining one acre property the remaining 40%. Designing townhomes to be built in phases on one or both properties would better enable development to occur *in synch* with market demand as it materializes.

RECOMMENDATIONS – PRICING & FEATURES

Beyond the question of quantitative potential demand are added questions of appropriate market pricing and unit features. Three comparative methods are used – providing analysis based on:

- Existing Stayton household incomes.
- Current market activity for attached unit housing throughout the 4-county mid-Valley region.
- Market activity for single-family housing in Stayton – as the current dominant market for owner-occupancy locally.

Stayton Income Analysis. Unit pricing potentials can be evaluated for the Mill Site property based upon 2006 incomes of households currently located within the City of Stayton. The following chart illustrates purchase prices affordable to various segments of the area's existing population.

Figure 7. Income-Based Target Purchase Pricing

	Median	Top 35-40%	Top 10%
Annual Income	$42,000	$70,000	$100,000
Monthly Housing Payment Supported (principal + interest)	$980	$1,500	$1,810
Down Payment %	5%	5%	20%
First-time Buyer (assumption)	Yes	Yes	No
Purchase Price	$159,000	$243,000	$385,000

Note: Assumptions include 28% PITI housing cost burden, 6.75% interest rate over 30 years and multiplier for taxes, homeowners and mortgage insurance of 1.28 - 1.34 (base is principal + interest payment).

Source: E. D. Hovee & Company, ESRI Business Information Solutions, American Banking Association, Oregon Department of Revenue.

According to American Banking Association guidelines and assumptions about average taxes and insurance, the median household income can support a purchase price of close to $159,000. The top earning 35-40% of households (975-1,115 households) can afford a purchase price of just over $240,000 (income breakdowns are available by range only). Note that that this analysis uses somewhat conservative assumptions regarding interest rates – as a hedge against possible rate changes between now and project completion.

The top 10% of households (280 households) can afford substantially higher priced housing at close to $385,000. A major reason for this projected leap in purchasing power is due to the assumption that buyers earning more than $100,000 are not first-time homebuyers and are bringing in equity equal to at least 20% of the home's purchase price.

In effect, this approach to unit pricing is most appropriate if it is assumed that a major portion of the market for Mill Site townhomes consists of existing Stayton area residents – especially those interested in downsizing from an existing single-family home.

4-County Attached Housing Ownership Experience. A second method available for gauging unit pricing and features is based on existing or proposed townhome/attached housing units currently for sale or sold within the 4-county region. For this analysis, 23 comparable properties were surveyed – located in Corvallis in Benton County, Albany and Lebanon in Linn County, and Salem in Marion County. Data compiled is from the Real Estate Multiple Listing Service for the Portland Metropolitan area, combined with area real estate broker and developer contacts.

Currently, prices reported for attached housing units in the 4-county area range from $138,000 to $475,000 – or from as low as $115 to $185 on a per square foot basis. The majority of these units are sold or advertised as a fee simple townhome product rather than as a condominium with monthly homeowner association dues.

The square footage of the available 4-county attached units reviewed range between 1,260-2,800 square feet, with a relatively generous median of 1,965 square feet. This includes a mixture of one and two story units, generally between two and three bedrooms, and with two and a half baths. Garages are also included, varying between one and two car capacity.

Amenities run the gamut – green building construction, fireplaces, granite countertops, cherry or oak cabinetry, high ceilings, hardwood floors, decks, gated community, and views, to name a few. Building styles also vary, from a duplex (or single shared wall) format to homes joined in a row house style and Craftsman to Tudor styling.

This second approach is most pertinent to assure competitive pricing and features for prospective buyers willing to shop the larger Salem or even a multi-county mid-Valley market.

Stayton Single-Family Ownership Experience. As a final benchmark, a third approach to unit pricing and features involves analysis of recent new single-family construction trends within Stayton over a thirteen month period from January 2006-February 2007.

Twenty of the 81 housing units sold in Stayton during this time period were accounted for by new construction. The reported median sales price for new homes was $211,165 for a 1,512 square foot unit – for a median per square foot sales figure of $140. Sales prices of new construction range between $159,500-$499,900, or $119-$190 per square foot.

The majority of the new single-family units have three bedrooms – only two units had four bedrooms. The number of bathrooms range between two and two and a half baths.

This single-family benchmark is useful both for local and out-of-town buyers who can be expected to compare pricing and value of single-family homes versus a somewhat more urban and higher density housing alternative. If the pricing differential is too great or there is perception of not enough relative value for the unit size and amenities, it will prove difficult to compete with the more established and traditional single-family product. On the other hand, if a Stayton townhome product can offer generously sized units with reasonable amenities and competitive pricing, the units should be of great interest for buyers interested in downsizing and/or a lower maintenance lifestyle.

Summary Recommendations. In summary, the following recommendations are based on the three methods of comparison presented – household income, attached housing unit comparables in the 4-county region, and new construction sold recently in Stayton.

- Generous average unit size ranging from 1,500-2,000 square feet. The lower end is on par with the median new single-family construction recently experienced in Stayton, reaching to the median of the attached units surveyed across the 4-county region.
- A mixture of two and three bedroom units, with at least two baths and the possible addition of a half bath. The mixture of bedrooms will accommodate a combination of potential buyers – including single residents, couples and families.
- Marketing to buyers drawn from both the Stayton and greater Salem areas – including young professionals, empty nesters and seniors (if some one-level unit configurations are provided).
- A range of the number of levels in the structures is recommended, with a predominance of two-level structures potentially interspersed with one-level structures (including patio homes) for a variety of ages and accessibility.
- One and two car garages are advised, evidenced by the regional comparables.
- Green building practices are suggested for consideration with at least some of the comparable townhomes offering river proximity – and consistent with the structural and energy benefits of green design for the life of the residence.
- A choice of higher-end finishes such as granite countertops, high ceilings, gas fireplaces, and hardwood floors.
- Fee simple ownership is suggested as more attractive than condominium ownership with homeowner association dues.
- Consider other options such as live-work as a means to broaden market appeal and provide a stronger link to downtown business development.
- Aim for an overall average price point in the $270,000-$375,000 range, or approximately $180 per square foot for a range of sizes and finishes. This is on the higher end of both the regional comparables and currently pricing for Stayton area single-family construction. Attached housing should support somewhat higher per square foot pricing, but the developer should be prepared to consider introductory pricing for the initial pioneering units, with opportunity to adjust upwards as the market is more proven.

E. D. Hovee & Company, LLC appreciates the opportunity to provide this Mill Site residential market evaluation. Questions and suggestions regarding any aspect of this report are appreciated.